

# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Financial Audit of the Department of Health

### Summary

The Office of the Auditor and the certified public accounting firm of Nishihama & Kishida, CPA's, Inc. conducted a financial audit of the Department of Health for the fiscal year July 1, 1991 to June 30, 1992. The audit examined the department's financial records and its systems of accounting and internal controls and tested these for compliance with applicable laws and regulations.

In the opinion of Nishihama & Kishida, CPA's, Inc., the department's financial statements present fairly its combined financial position and the combined results of its operations for the fiscal year ended June 30, 1992. All are in conformity with generally accepted accounting principles.

Nishihama & Kishida, CPA's, Inc. note no matters involving the internal control structure and its operation that they consider to be material weaknesses as defined in the report on the internal control structure. They also note, with respect to items tested, that the department has complied, in all material respects, with laws and regulations applicable to the department.

However, we did find that the department's contracting practices fail to assure that legislatively mandated services are provided to the public in a manner that safeguards the interests of the department, the service providers, and the recipients of services. We also find that there are some weaknesses in the department's financial management.

Specifically, we find that: contracts for purchase of services are not always executed before providers begin providing services, payment terms in certain contracts written by the Alcohol and Drug Abuse Division are unclear and contradictory, and the department does not have written contract monitoring procedures and does not always document the extent of contract monitoring.

We also find that: controls over cash receipts are inadequate; moneys are not deposited to the general fund, bank reconciliations are not being performed by the Developmental Disabilities Division, and fixed asset acquisitions are not always reported to the Department of Accounting and General Services (DAGS).

## Recommendations and Response

We recommend that the department take steps necessary to ensure that contracts for services are properly executed before contractors begin delivering those services. We also recommend that contracts executed by the Drug and Alcohol Abuse Division contain clear payment terms and that the department comply with the terms. Further, we recommend the department develop written contract monitoring standards for its divisions and branches to follow.

In addition, we recommend that cash receipts be deposited into the state treasury and recorded in the state's accounting records daily, that moneys held in certain special revenue accounts be transferred to the general fund, and future receipts be deposited into the general fund. Further, we recommend the Developmental Disabilities Division perform monthly bank reconciliations of its checking account and that the department comply with DAGS' requirements and ensure that all equipment acquisitions are reported to DAGS on a timely basis.

The department generally agrees with our findings and recommendations. It is attempting to improve contract processing time and develop clear contract payment terms. The department states it will develop guidelines for contract monitoring. Further, the department recognizes the problems of untimely deposits and failure to reconcile checking accounts and is working on procedures to ensure timely deposits and bank reconciliations. It also concurs with our recommendation to comply with DAGS' requirements to report equipment acquisitions on a timely basis.

The department does not agree, however, with our recommendation to return moneys to the general fund. The department intends to seek legislative approval to expend the funds currently held in special revenue accounts instead of returning the money to the general fund. It contends that depositing receipts generated by the family planning program into the general fund would prevent the department from complying with federal requirements. It cites a statement in the federal guidelines that program income shall be retained by the recipient and used for allowable costs of the project. Since this program is substantially supported by general fund appropriations, we believe the State is the proper recipient of program receipts and that the funds should be deposited to the general fund.

---

**Marion M. Higa**  
State Auditor  
State of Hawaii

Office of the Auditor  
465 South King Street, Room 500  
Honolulu, Hawaii 96813  
(808) 587-0800  
FAX (808) 587-0830